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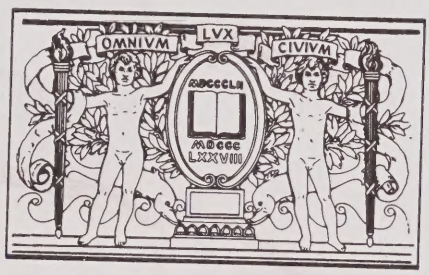

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Expanding Homeownership Opportunities in Roxbury

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BRA Research

A Working Paper of the Dudley Square Planning Team

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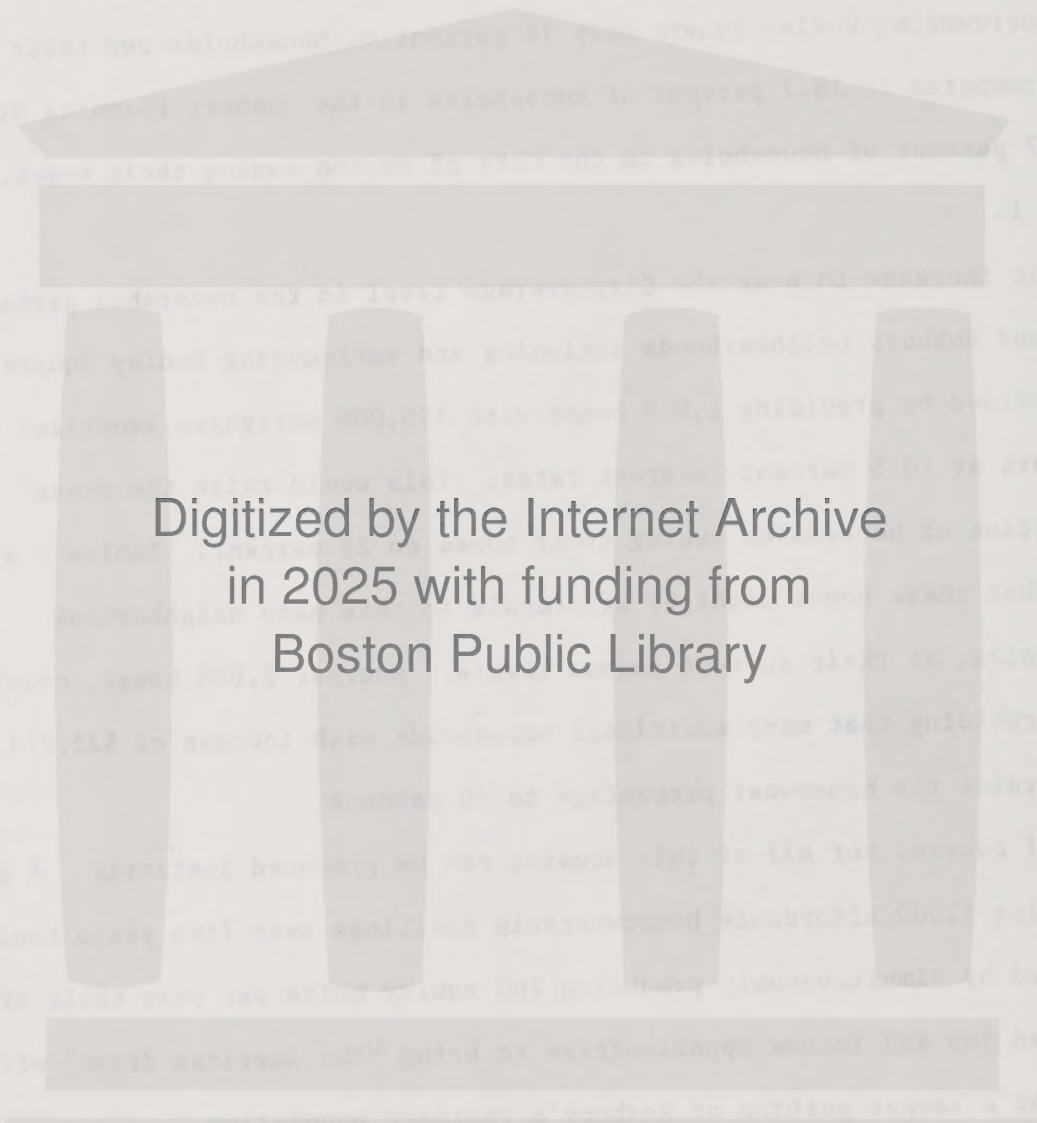
Only 61 households, 4 percent, own their homes in the Lower Roxbury-Dudley Square area, while 1,440 households, 96 percent, rent their homes. Many of the residents who rent live in the Boston Housing Authority's Orchard Park Public Housing Development. In the four Roxbury neighborhoods including and surrounding Dudley Square only 16 percent of households own their homes. This compares to 18.7 percent of households in the Roxbury Planning District and 27 percent of households in the City of Boston owning their homes. See Table 1.

An increase to near the City average level in the ownership percentage for four Roxbury neighborhoods including and surrounding Dudley Square could be obtained by providing 1,040 homes with $55,000 mortgages amortized over 30 years at 10.5 percent interest rates. This would raise the areas' proportion of households owning their homes to 25 percent. Tables 2 and 3 show that these homes might be affordable to this many neighborhood households, at their current income levels. Another 2,888 homes, coupled with jobs providing that many additional households with incomes of $23,973 or more could raise the homeowner percentage to 50 percent.

Of course, not all of this housing can be produced instantly. A goal of providing 1,000 affordable homeownership dwellings over five years could be achieved by simultaneously producing 200 equity units per year while offering expanded job and income opportunities to bring "the American dream" with in reach of a larger portion of Roxbury's resident population.

Tables 2 & 3 show that a pool of perhaps 300 Roxbury renter-households may earn at least $28,475. An estimated 2,100 households in the four neighborhoods including and surrounding Dudley Square may have incomes at or above this level. Even if all 1,836 home-owning households were in this



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upper-income group, at least 264 renter-households might qualify for homes affordable on a $28,475 income.

Together with households having BRA relocation priority, these form a pool likely to have sufficient income to be financially qualified to buy a home made affordable and desirable through public policy. These homes could be average quality site-built, 1,500 square foot units requiring a $3,650 down payment and a $65,000 mortgage at 10½ percent interest amortized over 30 years. Land and site preparation costs are treated as a public subsidy in this exercise.

In the following sections we will examine the demands on income and savings that homeownership will make on these households. We will also consider some cost and public policy issues relevant to the supply question. Finally, we will look to greater employment and income opportunities to make more quality housing affordable to still more residents.

Table 1

Homeownership in Dudley Square, Roxbury and Boston

	Number of Households	Owner Occupied	Rent Occupied
Lower Roxbury - Dudley Square	1,501	61 (4%)	1,440 (96%)
Highland Park	1,204	350 (29%)	854 (71%)
Sav-Mor	2,121	522 (25%)	1,599 (75%)
Washington Park	6,746	903 (13%)	5,843 (87%)
Four Roxbury Neighborhoods	11,572	1,836 (16%)	9,736 (84%)
Roxbury Planning Districts	19,979	3,748 (18.7%)	16,231 (81.3%)
City of Boston	218,457	59,504 (27%)	158,953 (73%)

The four Roxbury neighborhoods are U.S. Census Neighborhood Statistical Areas: (52) Highland Park, (53) Lower Roxbury-Dudley Square, (54) Sav-Mor, (55) Washington Park. These figures were reported from the 1980 U.S. Census.

Table 2

DISTRIBUTION OF HOUSEHOLD INCOME FOR
FOUR ROXBURY NEIGHBORHOODS

Household Income				
1979 1979 Income	Inflation Adjusted 1985	Number of Households	%	Cumulative %
< $5,000	< $7,350	3,254	28%	28%
5-7,500	7,350-11,000	1,477	13%	41%
7,500-10,000	11-14,700	1,459	13%	54%
10-15,000	14,700-22,000	2,138	19%	72%
15-20,000	22-29,400	1,284	11%	83%
20-25,000	29,400-36,700	822	7%	90%
25-30,000	36,700-51,400	656	6%	96%
35-50,000	51,400-73,500	327	3%	99%
50,000 <	73,500 <	135	1%	100%
		11,552		

Note: 1979 Household Income figures were reported in the 1980 U.S. Census for Neighborhood Statistical Areas 52,53,54 and 55. "Inflation Adjusted 1985" incomes reflect the 47 percent rise in the Boston Consumer Price Index between 1979 and March, 1985. We do not know that incomes have actually kept up with inflation.

Table 3

Incomes and Mortgage Budgets in the Four Roxbury Neighborhoods

	Number	1979 Income	1985 Income	25% of Income	
				Annual	Monthly
Households					
Total	11,552				
Top 2100	2,100	$19,375	$28,475	$7,119	$593
2300	2,300	18,600	27,328	6,832	569
2500	2,500	17,820	26,174	6,544	545
2700	2,700	17,040	25,019	6,255	521
Top Quartile	2,893	16,308	23,973	5,993	499
Median	5,786	9,291	13,658	3,415	285

Note: These figures describe the 1980 U.S. Census Neighborhood Statistical Areas 52, 53, 54, and 55. Household income categories were approximated by linear interpolation. 1985 income estimates are the product of 1979 Census figures and the 47 percent Boston Consumer Price Index rise between 1979 and March, 1985. The 1985 income estimates may not accurately reflect the current Roxbury income profile. In 1980, 1,836 of these 11,552 households were homeowners.

Monthly Homeowner Expenses: Requirements for Income

Table 4 outlines major homeowner expenses to be met from income. The amount set aside for mortgage payments is 25 percent of monthly income. For the initial target group (the top 2,100 households), mortgage principal and interest, mortgage insurance, taxes and home insurance (PITI) come to 31 percent of household income. Total monthly expenses amount to $876, or 37 percent of household income. The greatest periodic expense, after mortgage payments, is heat and energy, figured at $125 per month. All of these expenses for the "top 2,100 households" refer to a $65,000 to $70,000 home of 1,500 square feet financed with a 10½ percent, 30-year mortgage.

The lower-income households, the nonmortgage components, such as energy, remain fixed, requiring a higher percentage of household income to cover these expenses. Even if mortgage payments could be limited to 25 percent of income for the top quartile group ($499/mo.), mortgage principal and interest, mortgage insurance, taxes, and home insurance (PITI) would amount to 32 percent of household income. Total monthly housing costs would require 39 percent of income. See the mortgage tables at the end of this report to find the combinations of mortgage amount and interest rate that the monthly payments listed in Table 4 will support. For the top income quartile of households the $499/month mortgage payment could service a $57,000 mortgage amortized over 30 years at 10.0 percent interest.

Table 4

Illustrative Housing Budgets in the Dudley-Roxbury Area

Itemized Monthly Costs and Cumulative Percent of Income

Households	Mortgage Prin. & Int.	Mortgage Mtge. Ins.	Taxes	Insurance	Energy	Water & Sewer	Total
Top 2100	$593 (25%)	18 (26%)	79 (29%)	41 (31%)	125 (36%)	20 (37%)	876 (37%)
2300	569 (25%)	18 (~~25%~~ 26%)	79 (29%)	41 (31%)	125 (37%)	20 (37%)	852 (37%)
2500	545 (25%)	18 (26%)	79 (29%)	41 (31%)	125 (37%)	20 (38%)	828 (38%)
2700	521 (25%)	18 (26%)	79 (30%)	41 (32%)	125 (38%)	20 (39%)	804 (39%)
Top Quartile	499 (25%)	18 (26%)	79 (30%)	41 (32%)	125 (38%)	20 (39%)	782 (39%)
Median	285 (25%)	18 (27%)	79 (34%)	41 (37%)	125 (48%)	20 (50%)	568 (50%)

Note: Mortgage payments were specified as 25 percent of income. Taxes are based on a projected FY86 residential tax rate of $15.30/$1,000 of assessed value and an owner-occupant exemption worth $120 per year. Here assessed values were assumed to be $70,000. Insurance was assumed to cost .7 percent of home value annually ($490/yr.). Energy costs are estimated at $1/sq. ft./yr. or $1,500 annually for a 1,500 sq.ft. home. According to the Boston Water and Sewer Commission, the average person is billed $20.00 during a 90-day period. Gregory Perkins in his study "A Profile of Dudley Square: Current Characteristics and Future Development Potential" provides us with the average household size in Roxbury of 2.8 people.

This table does not include allowances for a monthly condominium fee or reserves for replacement and maintenance.

Closing Costs and Down Payment: Requirements from Savings

Consideration of ownership affordability and opportunity warrants an analysis of the initial investment the potential homeowner will make. Aside from the downpayment, the "upfront" cost of the purchase includes mortgage closing costs and pre-paid expenses placed in escrow with the lending bank. These can range from 5.1% to 6.9% of the mortgage loan depending upon the lending bank. These costs and the down payment must be met from savings.

Table 5 presents the actual closing costs incurred at two local banks for a $60,000 mortgage with a 5% down payment and a term of 30 years. A charge of 2 points (2% of the principal) is assessed; lower points equal higher interest rates. Most fees are standard, with a variation of few dollars, but are relatively equal in total.

Consistent with all banks and mortgage lenders, there is a Private Mortgage Insurance premium payment equal to 1% of the principal value of the loan, which must be paid at the time of the closing. A monthly renewal fee is then paid over the life of the loan. This renewal fee is:

Renewal Fee = .0034/12 x Principal. The renewal fee decreases after the seventh year at one of the two banks interviewed. The lowered rate is:

Renewal Fee after year seven = .00125/12 x Principal. This same bank also requires that two months renewal fee be placed in escrow upon closing. The initial renewal fee would amount to $18.42 per month for a $65,000 mortgage.

Real estate taxes, up to four months in advance, must be placed in escrow with the bank at the time of the closing, and are always paid in escrow until the mortgage is paid in full. A Homeowner's Insurance policy, equal to at least the full value of the property, must be purchased by all homeowners when obtaining a mortgage. It is required that a paid receipt and binder, evidence

of the homeowner's policy be presented at the closing. Thus, depending upon the bank's requirement of how the premium should be paid, the homebuyer must pay either an initial premium payment or the full value of the insurance.

Interest on the principal value is paid from the date of the closing through the last day of the closing month, inclusive. The interest paid is: Principal x Interest Rate x Number of Days until Month's End/360. The amount paid depends solely upon the closing date, and must be paid at the time of closing.

As Table 5 shows, the initial costs of purchasing a home with a $60,000 mortgage, 5% down payment and 30-year life can range from 5.1% to 6.9% of the mortgage loan, depending upon the policies of the lending bank. These costs include actual service fees as well as pre-paid expense payments placed in escrow at the respective bank, and are an important component of the issue of affordability.

Table 5

HOME BUYERS' INITIAL COSTS
(Two Examples for a $60,000 Mortgage)

	Bank A	Bank B
Points (2)	1,200	1,200
Application Fee		
1. Credit Report	30	60
2. Appraisal Fee	150[1]	125
Attorney's Fee	600	585
Recording Fees	65	49
Title Insurance	75	75
Plot Plan	80	100
Municipal Lien Certificate	15	15
Document Preparation	--	35
Tax Collection Fee	35	--
Private Mortgage Insurance	600	600
1. Two Month Escrow (.0034/12)		34
Pre-Paid Interest[2)]	$16-$480	$16-$480
Homeowners Insurance	$42-$420	$42-$420
Real Estate Taxes (2-4 Months Escrow)	$180-$360	$180-$360
Total Costs	$3,088-$4110	$3,116-$4,138
Percent of Mortgage	5.1%-6.8%	5.2%-6.9%

1) For two-family ($135 for one-family)

2) Varies according to closing date.

Note: These figures represent costs at two local banks. The appraisal fee of $150 is for a two-family house, and would be $125 for a none-family house. Private mortgage insurance is required when the down payment is lower than 20 percent of the purchase price. The amount of prepaid interest varies according to the closing date, and is computed at the rate of approximately $16 per day.

Public Policy

The city and the BRA own a lot of property in Roxbury. We might provide land and/or site preparation for free or at low cost. We must also "buy down" monthly mortgage payment schedules. Perhaps public efforts can also reduce closing costs.

Every $70,000 home added to the tax rolls from previously tax-exempt land will allow Boston about $1,000 of new permanent annual property tax revenues.

Employment and Income

Raising household incomes by about 4 percent annually beyond housing cost inflation will bring one of the four income cohorts listed on Table 3 up to the "Top 2100" level each year. If monthly housing costs increase by 10 percent annually, we must expand employment opportunities so that each household earns 14.4 percent more than last year, year by year. Then we will have an additional 200 households annually that could financially qualify for homes presently affordable to only a few hundred of the 7,736 renter-households in the study area.

In theory, this might be accomplished by providing a few hundred better jobs for these residents each year and having other workers "step up" to vacated jobs. In practice, we would have to do better than that.

Clearly jobs, job training and day care for underemployed, single parents are crucial to our housing strategy.

Construction Costs

A preliminary table shows that a standard cost reference indicated that a 1,500 square foot site-built home with unfinished basement might cost $59,000

(economy) to $69,000 (average). This does not include appliances, land cost, or site preparation.

Two-Family Homes

Construction costs are outlined on the preliminary table. The two-family home would cost $35,760 (economy 1,200 sq. ft. rental unit) to $46,441 (1,500 sq. ft. average rental unit) more than the single-family home. Mortgage debt service alone would be $314 per month ($35,760 at 10 percent over 30 years) to $425 per month ($46,441 at 10.5 percent over 30 years) extra.

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CONSTRUCTION COSTS

One-family home	Economy per sq ft	Economy cost	Average per sq ft	Average cost	Custom per sq ft	Custom cost
Residential 1½ Story 1500 sq. ft						
Wood siding - Wood frame	34.15	$51225.00	39.73	$59587.50	57.00	85537.50
Unfinished basement	3.80	+200.00	3.05	4575.00	5.50	8175.00
Total for N.E.		55425		64,162.50		93712.50
BOSTON		$59,305		$68,654		100,272

Two-family home	Economy		Average		Custom	
Residential, 2 Story 3000 sq ft (2700 sq ft)						
Wood siding - Wood frame	27.60 (2.90)	82,800.00 (78,894)	31.7 (33.50)	95100.00 (90,450)	44.90 (46.81)	134,625.00 (126,603.00)
Full basement		2040.00		2600.00		3010.00
Unfinished basement	(1.85) (11.96)	5550.00 (5,292")	(2.15) (2.21)	6300.00 (5967.00)	(3.95)	11,475.00 (10,665)
Adjustments: additional baths						
Fireplace		1920.00		2830.00		5250.00
Separate heating		700.00		735.00		790.00
for N.E.		93010 (88864)		107565 (102582.00)		155150 (146,318)
BOSTON		$99521 (95,065)		115,095 (109,763.00)		166011 (156,560)

SOURCE: R.S. MEANS "SQ. FT. COSTS"

Economy

- Mass produced from stock plans
- Single family - 1 full bath, 1 kitchen
- No basement
- Asphalt shingles on roof
- Hot air heat
- Drywall interior
- Materials and workmanship are sufficient to meet codes

Average

- Simple design from standard plans
- Single family - 1 full bath, 1 kitchen
- No basement
- Asphalt shingles on roof
- Hot air heat
- Drywall interior
- Materials and workmanship are average

Custom

- A distinctive residence from designer's plans
- ~~Single~~ Single family - 1 full bath, 1 kitchen
- No basement
- Asphalt shingles on roof
- Forced hot air heat / air conditioning
- Drywall interior
- Materials and workmanship are above average

MONTHLY MORTGAGE PAYMENTS (DOLLARS) AND BUYDOWN COSTS ($1,000S) FOR 30 YEAR FULLY AMORTIZED MORTGAGES

BUYER'S RATE RATE BUY-DOWN	14.5% 0%	14.0 0.5	13.5 1.0	13.0 1.5	12.5 2.0	12.0 2.5	11.5 3.0	11.0 3.5	10.5 4.0	10.0 4.5
MORTGAGE AMOUNT ($1000S)										
$35	$429 $.000	$415 $1.134	$401 $2.262	$387 $3.383	$374 $4.496	$360 $5.600	$347 $6.696	$333 $7.781	$320 $8.855	$307 $9.917
$40	$490 $.000	$474 $1.296	$458 $2.585	$442 $3.866	$427 $5.138	$411 $6.400	$396 $7.652	$381 $8.892	$366 $10.120	$351 $11.334
$45	$551 $.000	$533 $1.458	$515 $2.908	$498 $4.349	$480 $5.780	$463 $7.201	$446 $8.609	$429 $10.004	$412 $11.385	$395 $12.751
$50	$612 $.000	$592 $1.620	$573 $3.231	$553 $4.833	$534 $6.423	$514 $8.001	$495 $9.565	$476 $11.116	$457 $12.650	$439 $14.168
$55	$674 $.000	$652 $1.782	$630 $3.555	$608 $5.316	$587 $7.065	$566 $8.801	$545 $10.522	$524 $12.227	$503 $13.915	$483 $15.585
$60	$735 $.000	$711 $1.944	$687 $3.878	$664 $5.799	$640 $7.707	$617 $9.601	$594 $11.478	$571 $13.339	$549 $15.180	$527 $17.001
$65	$796 $.000	$770 $2.106	$745 $4.201	$719 $6.282	$694 $8.349	$669 $10.401	$644 $12.435	$619 $14.450	$595 $16.445	$570 $18.418
$70	$857 $.000	$829 $2.268	$802 $4.524	$774 $6.766	$747 $8.992	$720 $11.201	$693 $13.391	$667 $15.562	$640 $17.710	$614 $19.835
$75	$918 $.000	$889 $2.431	$859 $4.847	$830 $7.249	$800 $9.634	$771 $12.001	$743 $14.348	$714 $16.673	$686 $18.975	$658 $21.252
$80	$980 $.000	$948 $2.593	$916 $5.170	$885 $7.732	$854 $10.276	$823 $12.801	$792 $15.304	$762 $17.785	$732 $20.240	$702 $22.668
$85	$1,041 $.000	$1,007 $2.755	$974 $5.494	$940 $8.215	$907 $10.919	$874 $13.601	$842 $16.261	$809 $18.896	$778 $21.505	$746 $24.085
$90	$1,102 $.000	$1,066 $2.917	$1,031 $5.817	$996 $8.699	$961 $11.561	$926 $14.401	$891 $17.217	$857 $20.008	$823 $22.770	$790 $25.502

BUYDOWN COSTS ARE CALCULATED AS THE AMOUNT THAT MORTGAGED PRINCIPAL MUST BE REDUCED TO RESULT IN INDICATED PAYMENTS AT THE MARKET INTEREST RATE

B.R.A. RESEARCH

MONTHLY MORTGAGE PAYMENTS (DOLLARS) AND BUYDOWN COSTS ($1,000S) FOR 30 YEAR FULLY AMORTIZED MORTGAGES

BUYER'S RATE	12.5%	12.0	11.5	11.0	10.5	10.0	9.5	9.0	8.5	8.0
RATE BUY-DOWN	0%	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5
MORTGAGE AMOUNT ($1000S)										
$25	$267	$257	$248	$238	$229	$219	$210	$201	$192	$183
	$.000	$.905	$1.803	$2.692	$3.573	$4.443	$5.303	$6.152	$6.989	$7.812
$30	$320	$309	$297	$286	$274	$263	$252	$241	$231	$220
	$.000	$1.086	$2.163	$3.231	$4.287	$5.332	$6.364	$7.383	$8.386	$9.374
$35	$374	$360	$347	$333	$320	$307	$294	$282	$269	$257
	$.000	$1.267	$2.524	$3.769	$5.002	$6.221	$7.425	$8.613	$9.784	$10.937
$40	$427	$411	$396	$381	$366	$351	$336	$322	$308	$294
	$.000	$1.448	$2.885	$4.308	$5.716	$7.109	$8.485	$9.843	$11.182	$12.499
$45	$480	$463	$446	$429	$412	$395	$378	$362	$346	$330
	$.000	$1.629	$3.245	$4.846	$6.431	$7.998	$9.546	$11.074	$12.579	$14.061
$50	$534	$514	$495	$476	$457	$439	$420	$402	$384	$367
	$.000	$1.810	$3.606	$5.385	$7.145	$8.887	$10.607	$12.304	$13.977	$15.624
$55	$587	$566	$545	$524	$503	$483	$462	$443	$423	$404
	$.000	$1.992	$3.966	$5.923	$7.860	$9.775	$11.667	$13.535	$15.375	$17.186
$60	$640	$617	$594	$571	$549	$527	$505	$483	$461	$440
	$.000	$2.173	$4.327	$6.461	$8.574	$10.664	$12.728	$14.765	$16.773	$18.749
$65	$694	$669	$644	$619	$595	$570	$547	$523	$500	$477
	$.000	$2.354	$4.688	$7.000	$9.289	$11.553	$13.789	$15.995	$18.170	$20.311
$70	$747	$720	$693	$667	$640	$614	$589	$563	$538	$514
	$.000	$2.535	$5.048	$7.538	$10.003	$12.441	$14.849	$17.226	$19.568	$21.873
$75	$800	$771	$743	$714	$686	$658	$631	$603	$577	$550
	$.000	$2.716	$5.409	$8.077	$10.718	$13.330	$15.910	$18.456	$20.966	$23.436
$80	$854	$823	$792	$762	$732	$702	$673	$644	$615	$587
	$.000	$2.897	$5.769	$8.615	$11.433	$14.219	$16.971	$19.687	$22.363	$24.998
$85	$907	$874	$842	$809	$778	$746	$715	$684	$654	$624
	$.000	$3.078	$6.130	$9.154	$12.147	$15.107	$18.031	$20.917	$23.761	$26.560
$90	$961	$926	$891	$857	$823	$790	$757	$724	$692	$660
	$.000	$3.259	$6.490	$9.692	$12.862	$15.996	$19.092	$22.148	$25.159	$28.123

BUYDOWN COSTS ARE CALCULATED AS THE AMOUNT THAT MORTGAGED PRINCIPAL MUST BE REDUCED TO RESULT IN INDICATED PAYMENTS AT THE MARKET INTEREST RATE

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